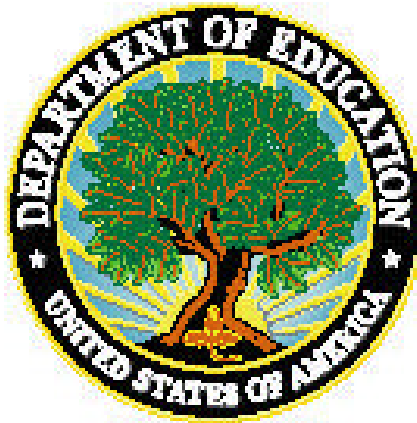


SFA Modernization Partner Project INTERIM LEGACY CONTRACT TRANSITION PLAN

Direct Loan Origination System (DLO)



Part 1 System Write-up

ACQUISITION SOLUTIONS, INC.
MEETINGS WITH DEPT. OF EDUCATION – OSFA
BUSINESS MANAGERS AND COTR's

CONTRACT:	DLOS (Direct Loan Origination System)
CHANNEL:	Schools
BUSINESS MANAGER:	Rosemary Beavers
COTR:	Steve Wingard - DLO
CONTRACTOR:	EDS
CONTRACT NUMBER:	PM-95-0162-01
CONTRACT AWARD DATE:	July 13, 1995
CONTRACT EXPIRATION DATE:	September 30, 2001
ANNUAL CONTRACT COSTS:	\$27 million

DLO is the system used by schools to initiate (originate) Direct Loans. DLO process Direct Loan Records (Origination and Change Records, disbursements and adjustments thereto, and promissory notes (paper document handling)). DLO handles 3 million direct loans per year and 50,000 PLUS (parent loans) per year. EDS (DLO contractor) performs functions under the Loan Origination Contract in Montgomery, Alabama.

Types of loans:

Subsidized – Fed. Gov't pays interest while student is in school

Unsubsidized – Student pays interest while in school but this interest can be capitalized and made a part of the principal to be repaid.

PLUS Loans – Loans to parent (these loans are without limit but credit checks must be performed on these loans).

Consolidated Loans – A student may elect to put all of his/her loans into one consolidated loan (this could include direct and FFEL loans – at that point the consolidated loan becomes a direct loan).

Note – schools elect to be either FFEL Loan Schools or Direct Loan Schools.

Excerpt of Loan Origination System Functions White Paper follows, (for a complete, detailed write-up (including flowcharts) of the DLO processes see the Loan Origination Functions White Paper):

Introduction

On August 10, 1993, Congress enacted the Student Loan Reform Act of 1993, establishing the William D. Ford Federal Direct Loan Program (Direct Loan Program) under the Higher Education Act of 1965, as amended. Under the Direct Loan Program, loan capital is provided directly to student and parent borrowers by the Federal Government rather than through private lenders as in the Federal Family Education Loan (FFEL) Program. Participating schools, acting on behalf of the government, deliver loan funds to student and parent borrowers. Direct Loan Servicing Center(s), under contract to the Federal Government, are responsible for servicing loans and collecting Direct Loan repayments.

This document provides a technology-independent description of the activities to be supported by the Loan Origination Subsystem (LOS) component of the Direct Loan Program. Functional requirements describe general system capabilities, but are not intended to describe how functions will be performed or details of the system design.

Overview

Direct Loan Program operations involve a number of discrete functions, covering schools' participation in the program, borrower application and eligibility, loan record and promissory note management, fund management and reconciliation, borrower enrollment tracking, borrower repayment, loan consolidation, customer service, and quality assurance. Each program function may include a combination of computer system support, manual processing, and action completed by participants.

The Department formulates policies and procedures and directs the activities of the Direct Loan Program. This includes coordinating the sharing of information between the various entities within the Direct Loan Program. The entities involved in the operations of the Direct Loan Program are borrowers, schools, the Title IV Wide Area Network (WAN), the Postsecondary Education Participation System (PEPS), the Central Processing System (CPS), the Grant Administration and Payment System (GAPS), the LOS, the Virtual Data Center (VDC), the Central Database Subsystem (CDS), the National Student Loan Data System (NSLDS), the Direct Loan Servicing Center(s) (DLSCS), the Debt Collection System (DCS), and the Credit Bureaus.

Borrowers

Direct Loan borrowers are students at schools participating in the Direct Loan Program who are determined to be eligible borrowers; parents or legal guardians of such undergraduate, dependent students; or previous borrowers of Direct or other types of Federal student loans that are eligible for loan consolidation. An Endorser—endorses a loan for an individual who was denied credit for initiating a direct loan on behalf of a borrower.

Schools

Direct Loan schools are schools that are eligible for participation in the FFEL Program that have chosen to apply and have been accepted for participation in the Direct Loan Program. The school participation levels (options) used for each year are below. [The definitions of these levels (options) are defined in Section 3.1 and in the Code of Federal Regulations—34 CFR, Part 685.102, Definitions.]

School Participation Level	Year 1 1995 1994-1995	Year 2 1996 1995-1996	Years 3-6 1997-2000 1996-2000
Level 1	Basic	Level 1	Option 2

Level 2	Alternative	Level 2	Option 1
Level 3		Alternate Origination	Standard
Level 4		Level 4	Level 4
Level 5		Reimbursement	Reimbursement

Title IV Wide Area Network

Title IV WAN is a communications network established by the Department for the purpose of transmitting program data among program entities. For the Direct Loan Program specifically, the Title IV WAN provides for transmission of loan origination data between schools and the LOS. Electronic fund drawdown requests can also be transmitted through this network.

Postsecondary Education Participation System

PEPS is the Department's system that tracks a school's participation in the Federal Student Financial Aid Programs. A school's participation in the Direct Loan Program is transmitted from PEPS to CDS to the LOC for Direct Loan processing.

Central Processing System

CPS is the Department's application data processing facility. The CPS uses student information from the Free Application for Federal Student Aid (FAFSA) processors to calculate the student's official Expected Family Contribution (EFC), and creates an Individual Student Information Record (ISIR) and prints the Student Aid Report (SAR). The FAFSA is the application for the Direct Loan Program. Schools use the information from the ISIR or SAR to generate Direct Loan Origination records.

Grant Administration and Payment System

GAPS is the Department's central fund payment system. GAPS enables schools that have appropriate identification codes and passwords to request and draw down funds to their specified bank accounts for distribution to borrowers. Level 1 (Option 2) and Level 4 schools perform the drawdown requests for their schools and the Department performs the drawdown requests for Level 5 (Reimbursement) schools. The LOS database performs the drawdown request function for Level 2 (Option 1) and Level 3 (Standard) schools via Title IV WAN to GAPS. Funds drawn down by the LOS database are placed in the school's specified bank account. The LOS database also has a direct connect with GAPS. GAPS transmits to the LOS database drawdown records for all schools.

Loan Origination Subsystem

LO is the system responsible for direct interface with schools in Direct Loan origination and reconciliation, promissory note processing, disbursement of funds for loans on behalf of schools, and reconciliation of funds between schools and the LOS. The LOS also transmits booked loan data to the CDS; performs credit checks on borrowers and endorsers of Direct Parent Loans for Undergraduate

Students (PLUS); initiates letters, such as credit check results, to borrowers; processes payments of administrative fees for loan origination activities, when and if funding is appropriated; warehouses program materials for distribution to schools on request; and provides customer service functions to schools and borrowers participating in the Direct Loan Program. The LOS also covers security, imaging, and data entry. It uses on-line and/or batch processing for loan data inquiry and the creation, update, and scheduled report generation of loans.

Central Database Subsystem

The CDS is used to maintain all loan-level Direct Loan data. The CDS receives booked loan data from the LOS, associates the loan data with any previous loan records received for the same borrower, receives borrower payment data from the CDS lockbox, determines the servicing location for each borrower account, processes borrower payments and adjustments, transfers defaulted loans to the Department's DCS, and maintains and reports central Direct Loan accounting data to the Department's accounting system.

National Student Loan Data System

NSLDS is the system responsible for recording specific data on all types of student loans and other aid authorized under Title IV of the Higher Education Act. The data are used for determining borrower eligibility for federal student aid, for calculating default rates in the FFEL and Direct Loan Programs, for providing data for a variety of program analysis and budget formulation functions, and for processing the national Student Status Confirmation Report (SSCR).

Direct Loan Servicing Center(s)

The Direct Loan Servicing Center(s) are responsible for servicing and collecting Direct Loans. This includes converting borrower accounts to repayment status, borrower contact, establishing repayment plans, providing repayment counseling to borrowers, issuing letters and bills, and issuing write-offs of accounts.

Debt Collection System

DCS is responsible for the collection of all Title IV defaulted student loans that are assigned to the Department. These include Direct Loans, Federal Insured Student Loans, Federal Perkins Loans that have been assigned by schools, and Federal Family Education Loans that have been assigned by guarantee agencies. DCS performs the following collection functions: assigns accounts to private collection agencies, reports to credit bureaus, offsets Federal tax refund, garnishes wages, processes payments, accrues interest, and performs write-offs of closed or unpayable accounts. DCS also provides LOS with applications and other support material for Direct Consolidation Loans processed through the Fast Track process.

Credit Bureaus

The LOS database sends credit check requests to the contractor's On-Line New Account Credit System (OLNACS), as a single point of contact. OLNACS takes the credit check requests and sends them to the

appropriate credit bureaus. After receiving the credit check results, OLNACS scores the results using the Department's criteria and forwards the results to the LOS database.

Objectives

Several objectives formed the basis for the LOS. These objectives were:

- To provide an integrated system solution to ensure a consistent application environment.
- To provide a consolidated database to ensure data integrity and to improve data access.
- To continually improve operational efficiency to ensure the ability to exceed customer needs as the number of participating schools continues to increase.
- To provide a scaleable solution that can exceed the processing requirements encountered during the peak processing periods.
- To provide a solution that will enable the Loan Origination Center (LOC) management to adjust the customer service support capabilities to meet the changing demands of the customers.
- To provide the participating schools with outstanding customer service and assistance in identifying, validating, and distributing financial assistance from the Direct Loan Program.
- To provide an open systems solution for the Department's changing needs as defined by the schools, borrowers, and Congressional mandates.

Functional Overview

The LOS is composed of two major functional areas: Loan Origination and Reconciliation. Section 3.4, Interfaces, describes the interfaces maintained by the LOS database with external entities. The graphical formats represent process decompositions wherein a particular subsystem is broken down to its component functional subprocesses. The textual formats include the title of the process; the process description, which includes an overview of that process' subprocesses; the major inputs and outputs; and the interfaces for each process. The current origination options are summarized in the chart below.

Loan Origination Option	Establish and Transmit Loan Origination Records	Print Promissory Notes	Secure Valid Promissory Notes	Estimate Funds Anticipated Disbursement List (ADL)	Drawdown Funds (submit drawdown request to GAPS)
Level 1 (Option 2)	School	School or LOS (forwards to school)	School (forwards to LOS)	School	School
Level 2 (Option 1)	School	School or LOS (forwards to school)	School (forwards to LOS)	LOS	LOS
Level 3 (Standard)	School	LOS (forwards to borrower)	LOS	LOS	LOS

Level 4	School	LOS (forwards to borrower)	LOS	LOS or School	School
Level 5 (Reimbursement)	School	LOS (forwards to borrower)	LOS	LOS	Department

The Loan Origination process contains the following functions:

- Subsidized and Unsubsidized Loan Originations
- Promissory Notes
- PLUS Loan Originations
- Disbursements
- Drawdown Requests
- Return of Excess Cash
- Loan Booking
- Reporting (Department deliverables)
- Warehousing (storing and distributing Direct Loan program materials)
- School File Maintenance

DLO FUNCTIONS

Mail Room:

On the front-end DLO receives certain paper (e.g. – promissory notes) and does imaging of these records. EDS also has 14 people who retrieve info for screening. Sends acknowledgement indicating records received and processed. Also sends disclosure statement for each origination record. Forms are also printed (EDS contracts with Moore Business Forms for printing) and mailed under the contract by EDS in Montgomery.

Processing of Direct Loan records Received from Schools:

Direct Loans originate at school level and forwarded to DLO using EDConnect, mainframe transmission or TIV-WAN – all transmissions are electronic (only promissory notes are paper). DLO receives and processes Direct Loan Origination records, disbursement records and adjustments from schools. Also reconciles school records with DLO records. The Loan Origination Record contains the demographic, financial and statistical information necessary to create a borrower record in the OFSA's Direct Loan database. DLO manages the loan information, processes credit checks (for PLUS Loans), processes loan details and maintains school and participant information.

Schools request funds directly from GAPS (schools must spend the money within 3 days (applied to student loans) or it is considered in an excess situation and a refund will be requested. (Students usually

never sees cash – rather his/her account is credited at the school). The disbursement of funds is monitored and managed by DLO (process draw downs, books loans, and processes loan disbursement information. Handles accounting and reconciliation for the Direct Loan Program – note however this is not an accounting system but it does have integrate links to GAPS and OSFA CFO systems. Note – a loan is booked when 3 processes are complete – origination, sign promissory note received and disbursement made).

(Note- Consolidation process is approximately the same – Student applies to consolidate all loans, application is processed, DOL draws down funds from GAPS (Grant Administration and Payment System at Dept. of Education) to pay-off balances to all lenders (cuts checks to all lenders), at that point consolidated loan becomes a direct loan). More internal and contractor staff required for Consolidated Loan Process (the consolidation process is much more paper intensive including more mail room personnel and intense manual data entry) – operates under same contract but separate from DLO process.

WHO USES DLO?

External Users:

- Schools
- Students
- Parents
- Dept. of Education GAPS

Internal Users:

- DLS (Direct Loan Servicing)
- CFO

ANNUAL CONTRACT COST – OFSA FUNCTION PERCENTAGES

The annual contract costs for DLO approximately \$27 million. The approximate percentages and annual cost for the base OFSA functions (as outlined in the OFSA Contracts/functions Matrix) are as follows:

Document Handling
Analytical/ Management
Support
Customer Service

PLANNED ENHANCEMENTS

Several enhancements to the system under the system maintenance annual updating process. An maintenance enhancement made to this legacy system will be implemented in concert with approved System Architecture standards and processes currently being implemented within SFA.